

The Department raises revenue through taxes, duties and fees in accordance with the relevant legislation. Earnings and profits tax are assessed by reference to the incomes/profits of the taxpayers in the previous year, whereas duties and fees are charged at the time the relevant activities occur. For 2018-19, earnings and profits tax assessed increased by \$29.1 billion (13.4%) (**Schedule 2**) as compared with the previous year. The total amount of duties and fees collected decreased by \$14.8 billion (12.3%).

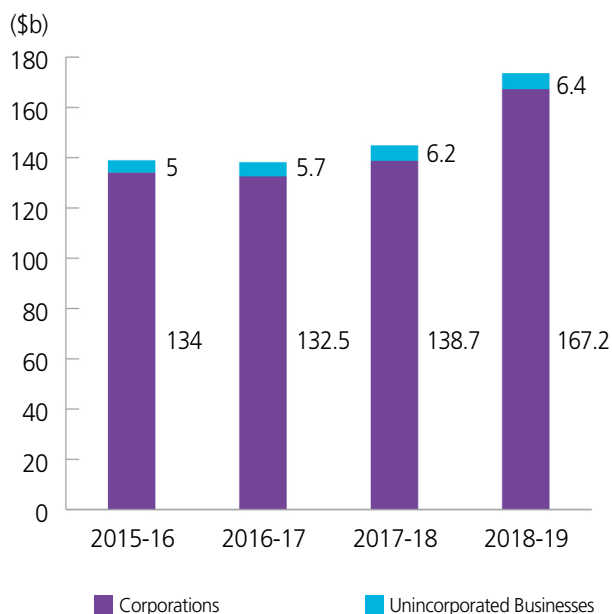
## Profits Tax

Profits tax is levied on individuals, corporations, bodies of persons and partnerships, in respect of assessable profits arising in or derived from Hong Kong. The tax rates for corporations and non-corporate persons are 16.5% and 15% respectively.

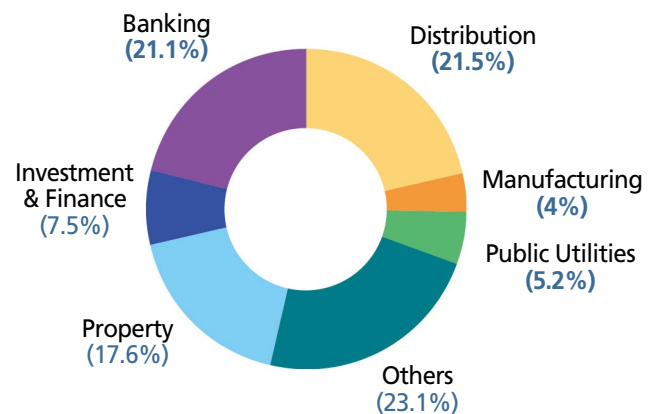
Reflecting a notable expansion of the Hong Kong economy in 2017, there was a stable growth in the amount of assessable profits in various business sectors. The amount of profits tax assessed in 2018-19 reached \$173.6 billion, a significant increase of \$28.7 billion (19.8%) as compared to that of the previous year (**Figure 5**).

The amounts of final tax assessed in respect of different business sectors are shown in **Schedules 3** and **4**. Of the total final tax assessed for the year of assessment 2017-18, the property, financial and banking sectors together contributed 46.2% and the distribution sector generated 21.5% (**Figure 6**).

**Figure 5 Profits tax assessed**



**Figure 6 Ratios of corporation profits tax assessed under 2017-18 final assessments by business sectors**

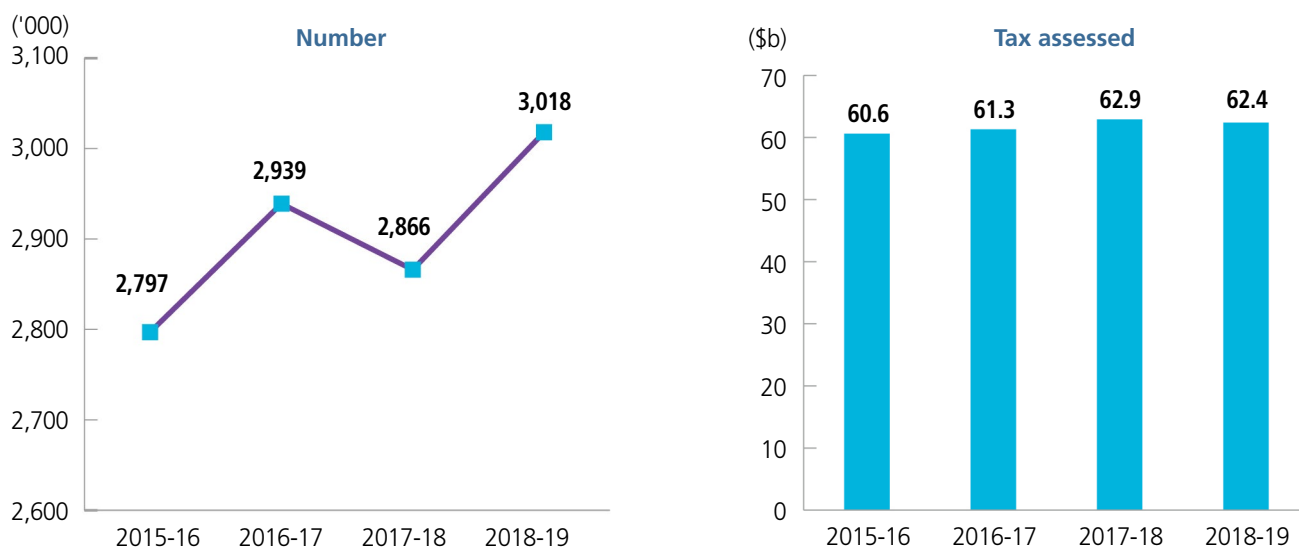


## Salaries Tax

Salaries tax is charged on all incomes from any office (e.g. a directorship) or employment and pension arising in or derived from Hong Kong. The total amount of tax payable is restricted to the standard rate (15%) on the net total income (without deduction of allowances) of the individual concerned.

As compared with the previous year, the number of salaries tax assessments made during 2018-19 increased by 5.3%. However, the amount of tax assessed was 0.8% less after implementing the salaries tax relief measures in the 2018-19 Budget (**Figure 7**).

**Figure 7 Salaries tax assessments**



Analyses of salaries tax assessments and allowances granted in respect of taxpayers at various income levels for the year of assessment 2017-18 are provided in **Schedules 5** and **6**.

For the year of assessment 2017-18, the number of standard rate taxpayers increased by 949 to 28,395. These taxpayers together contributed 40.4% of the salaries tax assessed, an increase of 4.6% compared with last year (**Figure 8**).

**Figure 8 Standard rate taxpayers**

### Percentage of total number of taxpayers

	2016-17	2017-18
Total number of taxpayers	1,764,543	1,869,593
Standard rate taxpayers	27,446	28,395
Percentage	1.6%	1.5%

## Percentage of total salaries tax assessed

	2016-17	2017-18
Total salaries tax assessed (\$M)	58,774	60,379
Tax contributed by standard rate taxpayers (\$M)	21,042	24,369
Percentage	35.8%	40.4%

## Notification Requirements of Employers

Employers are required to notify the Department of commencements and cessations of employment as well as employees' impending departure from Hong Kong for more than 1 month. Besides, employers are required to prepare annual employer's returns to report the emoluments of each of their employees. During the year, 385,637 employers filed employer's returns with the Department.

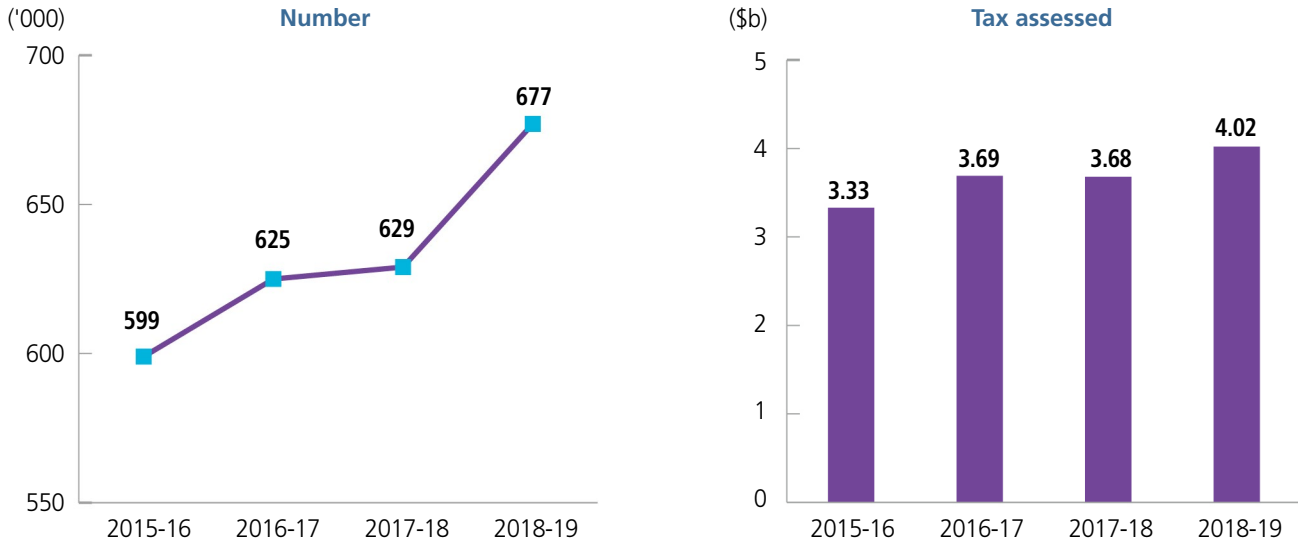
The Department provides e-Seminars and disseminates tax information to employers on the IRD website to help them understand the relevant statutory requirements. The contents cover completion of employer's returns, employer's obligations and answers to frequently asked questions. Employers can also obtain specimens of completed employer's returns and notification through the Fax-A-Form service.

## Property Tax

Property owners (including corporations) are subject to property tax which is charged at the standard rate (15%) in respect of the net assessable value of the property. Rents received from properties solely owned by individuals should be declared in Tax Returns-Individuals (BIR60); whilst rents received from properties jointly owned or co-owned by individuals or properties held by corporations/bodies of persons should be declared in Property Tax Returns (BIR57 / BIR58). Property owners that pay property tax in respect of premises used for their businesses can have such payments set off against their profits tax liabilities. For corporations, income arising from properties owned by them is also subject to profits tax at the corporation rate. To obviate the need for yearly set-off of property tax against profits tax, a corporation can apply for exemption of property tax on the property concerned.

Statistics on the classification of properties and classification by number of owners, based on the records of the Department, are provided in **Schedule 7**. The number of assessments made in 2018-19 was more than that in the previous year by 7.6%. The amount of property tax assessed increased by 9.2% (**Figure 9**).

**Figure 9 Property tax assessments**

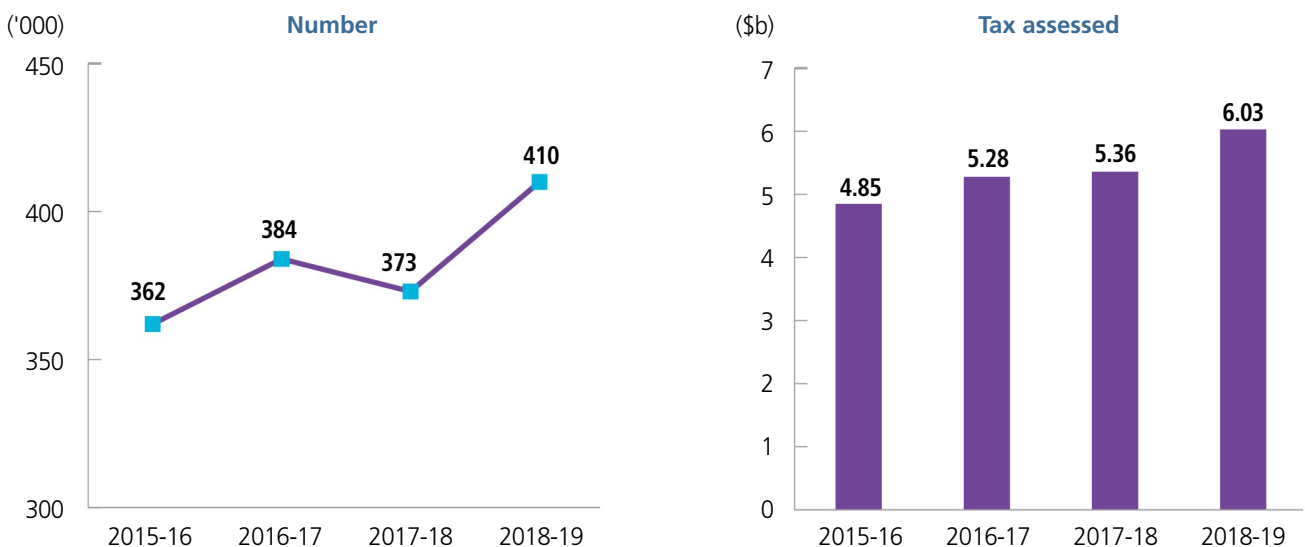


## Personal Assessment

If an individual has income chargeable to profits tax and/or property tax, he/she may elect for personal assessment. Under personal assessment, all the incomes of the taxpayer and his or her spouse (if married) are aggregated and, after deduction of allowances, are assessed at the progressive tax rates applicable to salaries tax. In appropriate circumstances, this would reduce the total tax liability of the taxpayer and his or her spouse.

As compared with the previous year, the number of personal assessments made in 2018-19 increased by 9.9% and the amount of tax assessed was 12.5% higher (**Figure 10**).

**Figure 10 Assessments made under personal assessment**



## Tax Treaty Network

Double taxation arises where the same item of income or profit of a taxpayer is subject to tax in Hong Kong as well as in another tax jurisdiction. A wide tax treaty network can help minimise exposure of Hong Kong residents and residents of the tax treaty partners to double taxation. It will also facilitate the flows of trade, investment and talent between Hong Kong and the rest of the world, and enhance Hong Kong's competitiveness as an international financial, investment and commercial hub.

As at 31 March 2019, Hong Kong has signed comprehensive avoidance of double taxation agreements (covering various types of income) with 40 jurisdictions. They are Austria, Belarus, Belgium, Brunei, Canada, the Mainland of China, the Czech Republic, Finland, France, Guernsey, Hungary, India, Indonesia, Ireland, Italy, Japan, Jersey, Korea, Kuwait, Latvia, Liechtenstein, Luxembourg, Malaysia, Malta, Mexico, the Netherlands, New Zealand, Pakistan, Portugal, Qatar, Romania, Russia, Saudi Arabia, South Africa, Spain, Switzerland, Thailand, the United Arab Emirates, the United Kingdom and Vietnam.

To comply with the international standard on exchange of information, Hong Kong entered into tax information exchange agreements (TIEAs) with appropriate partners since 2014. As at 31 March 2019, Hong Kong has signed TIEAs with 7 jurisdictions. They are Denmark, the Faroes, Greenland, Iceland, Norway, Sweden and the United States of America.

Hong Kong is committed to enhancing tax transparency and preventing tax evasion. The Central People's Government has deposited a declaration to the Organisation for Economic Cooperation and Development (OECD) for extending the application of the Convention on Mutual Administrative Assistance in Tax Matters (the Convention) to Hong Kong. With the entry into force of the Convention in Hong Kong on 1 September 2018, Hong Kong can now ride on a multilateral platform under the Convention to implement various forms of administrative co-operation in the assessment and collection of taxes, including exchange of information on request, automatic exchange of financial account information and automatic exchange of country-by-country reports and spontaneous exchange of information on tax rulings under the base erosion and profit shifting package promulgated by the OECD.

## Advance Rulings

Taxpayers may apply for an advance ruling on how a provision of the Inland Revenue Ordinance applies in relation to a particular arrangement. A fee is charged for the service on a "cost recovery" basis. The applicant is required to pay an initial application fee of \$45,000 for a ruling concerning the application of the "Territorial Source Principle" in a profits tax case, or \$15,000 for a ruling on any other matter. An additional fee is payable if the processing time exceeds the specified limit. The Department endeavours to respond within 6 weeks of the date of application, provided that all relevant information is supplied with the application and further information from the applicant is not required.

During 2018-19, the Department completed the processing of 27 advance ruling applications (**Figure 11**). Most of the applications were for rulings on profits tax matters.

**Figure 11 Advance rulings**

	2017-18 Number	2018-19 Number
Awaiting decision at the beginning of the year	18	<b>11</b>
Add: Applications received during the year	33	<b>27</b>
	<u>51</u>	<u><b>38</b></u>
Less: Disposed of -		
Rulings made	26	<b>18</b>
Applications withdrawn	8	<b>6</b>
Rulings declined	6	<b>3</b>
	<u>40</u>	<u><b>27</b></u>
Awaiting decision at the end of the year	<u>11</u>	<u><b>11</b></u>

## Advance Pricing Arrangement

An Advance Pricing Arrangement (APA) is an arrangement that determines in advance an appropriate set of criteria for the determination of the transfer pricing of cross-border transactions between associated enterprises over a fixed period of time. The APA process gives enterprises the opportunity to reach agreements with tax administrations on the method of applying the arm's length principle so that transfer pricing issues can be more efficiently dealt with in real time, thus avoiding the risk of transfer pricing audit later. This arrangement enables enterprises to better assess their tax exposure and facilitates their business operation.

A unilateral APA is an arrangement between the Commissioner and the enterprise concerning the transfer pricing of its cross-border transactions with an associated enterprise. As the APA process does not involve the agreement with a comprehensive avoidance of double taxation agreement (CDTA) partner, it does not guarantee the agreement of the CDTA partner to the arrangement made.

A bilateral APA is an arrangement between the Commissioner and the competent authority of a CDTA partner concerning the transfer pricing of cross-border transactions. It provides certainty to enterprises that double taxation will not arise. The same also applies to a multilateral APA which is a similar arrangement involving the partners of two or more CDTAs.

The Department rolled out the APA programme in April 2012 and introduced a statutory APA regime in July 2018. Up to 31 March 2019, the Department has received quite a number of bilateral APA applications which involve CDTA with different partners including the Mainland of China, Italy, Japan, Korea, Malaysia, the Netherlands and Thailand. These cases are currently under different stages of the APA programme and a few of them have already been completed.

## Objections

A taxpayer who is aggrieved by an assessment may lodge a notice of objection to the Commissioner within the prescribed time limit. If the objection is against an estimated assessment raised in the absence of a tax return, a properly completed return, together with the supporting accounts where applicable, must also be accompanied with the notice of objection. A significant proportion of the objections received each year arise from estimated assessments. Most of these objections are settled promptly by reference to the returns subsequently received. Many of the other types of objections are also settled by agreement between the taxpayers and the assessors concerned. Only relatively few objections are ultimately referred to the Commissioner for determination. During 2018-19, the Department completed the processing of 93,384 objections (Figure 12).

**Figure 12 Objections**

	2017-18 Number		2018-19 Number	
Being processed at the beginning of the year	40,011		<b>41,303</b>	
Add: Received during the year	80,497		<b>95,314</b>	
	120,508		<b>136,617</b>	
Less: Disposed of -				
Settled without determination	78,695		<b>92,801</b>	
Determinations:				
Assessments confirmed	285		<b>277</b>	
Assessments reduced	122		<b>176</b>	
Assessments increased	97		<b>124</b>	
Assessments annulled	6	510	<b>6</b>	<b>583</b>
	79,205		<b>93,384</b>	
Being processed at the end of the year	41,303		<b>43,233</b>	

## Appeals to the Board of Review

A taxpayer who is dissatisfied with the Commissioner's determination of his objection may appeal to the Board of Review (Inland Revenue Ordinance) (the Board). The Board is an independent statutory body. As at 31 March 2019, the Board consisted of a chairman and 8 deputy chairmen, who have legal training and experience, as well as 66 members. During 2018-19, the Board settled 39 appeal cases (Figure 13).

**Figure 13 Appeals to the Board of Review**

	Number		
Awaiting hearing or decision as at 1 April 2018			31
Add: Received during the year			49
			80
Less: Disposed of -			
Withdrawn		15	
Decided:			
Assessments confirmed	8		
Assessments reduced in part	2		
Assessments increased	14		
Assessments annulled	0		
Others	0		
	0	24	39
Awaiting hearing or decision as at 31 March 2019			41

## Appeals to the Courts

A decision of the Board is final, provided that either the taxpayer or the Commissioner may, pursuant to section 69 of the Inland Revenue Ordinance, appeal to the Court of First Instance against the Board's decision on a question of law. Before 1 April 2016, taxpayers or the Commissioner may only appeal to the court by way of case stated from the Board. With effect from that date, the case stated procedure was abolished and no appeal may be made unless leave to appeal has been granted by the court, on the application of the taxpayer or the Commissioner.

During 2018-19, the Court of First Instance ruled on an appeal relating to additional tax assessments and two applications for leave to appeal lodged by the taxpayers. In rejecting the leave application, the court of First Instance also ruled against a taxpayer as to whether certain benefit accrued upon termination of employment should be chargeable to tax.

During the year, the Court of Appeal handed down two judgments on appeals lodged by the taxpayers. In the case concerning chargeability of benefits accrued upon termination of employment, the Commissioner has been granted leave to appeal.

The Hong Kong Court of Final Appeal Ordinance provides that, a taxpayer or the Commissioner may, with the leave of the Court of Appeal or the Court of Final Appeal, appeal against the judgment of the Court of Appeal. During 2018-19, the Court of Final Appeal has granted leave to a taxpayer to appeal in relation to a case concerning whether there had been a change of the taxpayer's intention with respect to a piece of land.

**Figure 14** sets out the statistics concerning appeals to the Courts during 2018-19.



**Figure 14 Appeals to the Courts**

	Court of First Instance	Court of Appeal	Court of Final appeal	Total
Awaiting hearing or decision as at 1 April 2018	2	2	0	4
Add: Lodged during the year	2	1	2	5
	4	3	2	9
Less: Disposed of	1	2	0	3
Awaiting hearing or decision as at 31 March 2019	3	1	2	6

## Business Registration

The Department aims to maintain an efficient business registration system. A person carrying on a business in Hong Kong must register the business and pay the required fee and levy. The number of business registrations as at 31 March 2019 stood at 1,517,751. It was 14,926 less than that as at 31 March 2018 (**Figure 15**).

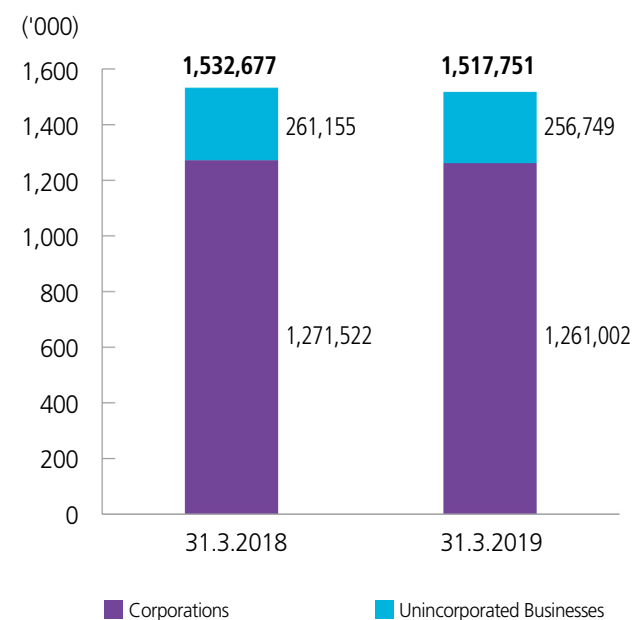
Business registration certificates are generally valid for one year, but businesses may elect for 3-year certificates. As at 31 March 2019, 26,088 businesses held 3-year certificates.

The amount of business registration fees and penalties collected in 2018-19 increased slightly to \$2.8 billion, an increase of 3.7% compared with last year (**Figure 16**). Due to the waiver of business registration fees for 2019-20, collection in the next year is expected to decrease significantly. Business registration statistics are set out in **Schedule 8**.

**Figure 16 Business registration statistics**

	2017-18	2018-19	Increase
Number of certificates paid (Main and Branch)	1,493,423	1,517,791	+1.6%
Fees (inclusive of penalties) collected (\$m)	2,726	2,826	+3.7%

**Figure 15 Number of business registrations**



Under the Business Registration Ordinance, a small business with average monthly sales or receipts below a specified limit (\$10,000 for businesses deriving profits mainly from the sale of services, and \$30,000 for other businesses) can apply for exemption from payment of the business registration fee and levy. Where an application for exemption is not allowed, the business operator may appeal to the Administrative Appeals Board. The number of exemptions granted during 2018-19 was 16,658, representing an increase of 12.1% from the previous year. Only two appeal cases were received by the Board during 2018-19.

**Figure 17 Appeals to the Administrative Appeals Board**

	2017-18 Number	2018-19 Number
Awaiting hearing at the beginning of the year	0	0
Add: Lodged during the year	0	2
	0	2
Less: Disposed of -		
Appeal allowed	0	0
Appeal dismissed	0	0
Appeal withdrawn	0	1
Awaiting hearing at the end of the year	0	1

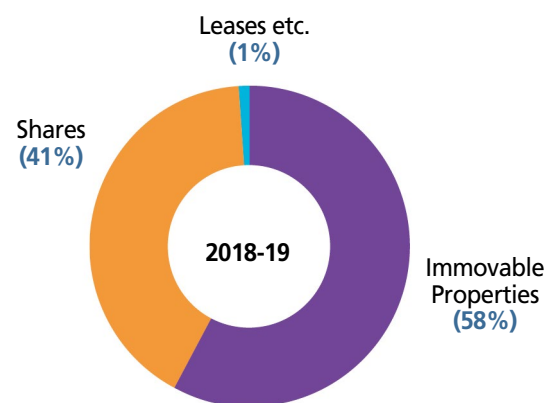
## Stamp Duty

Stamp duty is charged on instruments effecting property transactions, stock transactions and leasing of property in Hong Kong (**Figure 18**).

Overall, there was a decrease of 16% (\$15.2 billion) in the total stamp duty collection for the year 2018-19 (**Figure 19** and **Schedule 9**). The decrease in the total stamp duty collection is attributable to the following factors:

- (1) The Stamp Duty (Amendment) Ordinance 2018 (2018 Amendment Ordinance) was gazetted on 19 January 2018 (Gazettal Date). The 2018 Amendment Ordinance stipulates that unless exempted, the ad valorem stamp duty (AVD) rate on certain instruments executed on or after 5 November 2016 for dealing with residential properties is increased to a flat rate of 15%. For the relevant instruments of residential property transaction executed between 5 November 2016 and 18 January 2018 (the Transitional Period) and chargeable with AVD at the rate of 15%, the time for paying additional stamp duty (ASD) was within 30 days commencing immediately after the Gazettal Date (i.e. on or before 18 February 2018). In 2017-18, the Stamp Office collected ASD of \$7.9 billion from the instruments executed during the Transitional Period. There was a significant decrease in the ASD collected from the instruments of the Transitional Period in 2018-19.

**Figure 18 Composition of stamp duty collections**



- (2) There was a decrease in the number of property transactions in 2018-19 when compared with that for 2017-18.
- (3) The decrease in total turnover of the stock market in 2018-19 leads to a drop in the amount of stamp duty collection from Hong Kong stock transactions.

**Figure 19 Stamp duty collections**

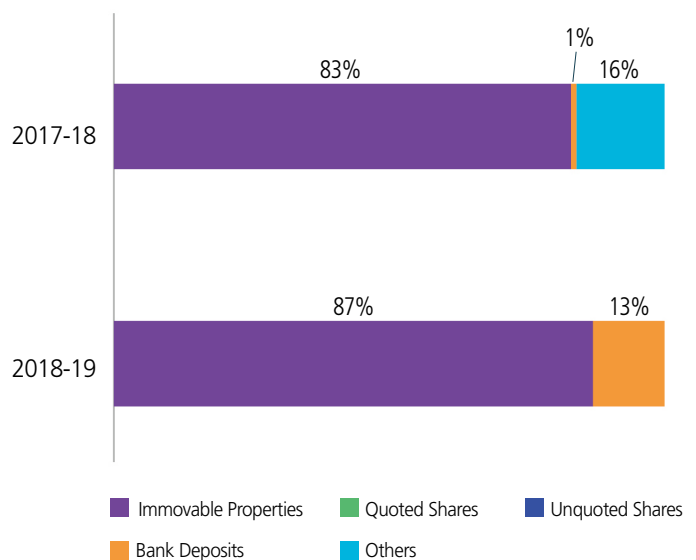
	2017-18 (\$m)	2018-19 (\$m)	Increase / Decrease
Immovable Properties	57,376	<b>45,899</b>	-20%
Shares	36,930	<b>33,102</b>	-10%
Leases and other documents	867	<b>978</b>	+13%
Total	95,173	<b>79,979</b>	-16%

## Estate Duty

Estate duty is charged on a deceased person's estate situated in Hong Kong. The threshold for levying duty is \$7.5 million and the duty rates range from 5% to 15%, depending on the value of the estate.

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 abolishing estate duty in respect of persons passing away on or after that date. The estate duty chargeable in respect of estates of persons died between the period 15 July 2005 to 10 February 2006, with the principal value exceeding \$7.5 million, is reduced to a nominal amount of \$100. The number of new cases stood at 551 in 2018-19, a decrease of 17% from the last year (**Figure 21**).

**Figure 20 Composition of estates**



**Figures 20 and 21** show the composition of estates and cases processed for the past two years.

**Figure 21 Estate duty cases**

	2017-18 Number	2018-19 Number
New cases	665	<b>551</b>
Cases finalised		
- Dutiable	3	<b>2</b>
- Exempt	632	<b>565</b>
	635	<b>567</b>

Estate duty of \$88 million was collected during the year (**Schedule 10**), an increase of \$57 million (183%) compared with the previous year.

Estate duty is payable on delivery of an estate duty affidavit or account (or within 6 months from the date of the deceased's death, whichever is the earlier). \$84.5 million was received during the year in advance of the issue of formal assessments (**Schedule 10**).

## Betting Duty

Betting duty is charged on the net stake receipts from betting on horse races and football matches and on the proceeds of Mark Six lotteries, all administered by the Hong Kong Jockey Club. In 2018-19, the rates of betting duty on these betting activities remained unchanged (**Figure 22**).

**Figure 22 Rates of betting duty in 2018-19**

			Rate
Horse racing			
Local bets on local horse races	Net stake receipts		
	the first \$11 billion		72.5%
	the next \$1 billion		73%
	the next \$1 billion		73.5%
	the next \$1 billion		74%
	the next \$1 billion		74.5%
	the remainder		75%
Local bets on non-local horse races	Net stake receipts		72.5%
Mark Six lotteries	Proceeds		25%
Football betting	Net stake receipts		50%

The total betting duty collected in 2018-19 was 1.1% higher than that of the previous year (**Figure 23** and **Schedule 11**).

**Figure 23 Betting duty collections**

	2017-18 (\$m)	2018-19 (\$m)	Increase / Decrease
Horse racing	13,281.8	<b>12,696.7</b>	-4.4%
Mark Six lotteries	2,023.3	<b>1,987.1</b>	-1.8%
Football betting	6,654.0	<b>7,510.6</b>	+12.9%
Total	21,959.1	<b>22,194.4</b>	+1.1%

## Tax Reserve Certificates

Taxpayers may purchase Tax Reserve Certificates (TRCs) under two situations.

The first situation applies to taxpayers who wish to save for the payment of their future tax liabilities. The Department has set up two schemes, namely the “Electronic Tax Reserve Certificates Scheme” for all taxpayers and the “Save-As-You-Earn” (SAYE) Scheme for civil servants and civil service pensioners. With a Tax Reserve Certificate account, taxpayers may purchase TRCs by various channels, including bank auto-pay, telephone, the Internet and bank ATM. Under the “SAYE Scheme”, civil servants and civil service pensioners can purchase TRCs through monthly deductions from their salaries/pensions. Interest is payable on the TRCs when they are redeemed for settlement of tax liabilities, based on the interest rate prevailing at the time of purchase, for a maximum period of 36 months from the date of purchase.

In 2018-19, there was a decrease of 2.1% and 19.1% respectively in the number and amount of TRCs sold under the “Electronic Tax Reserve Certificates Scheme”. For the “SAYE Scheme”, a decrease of 3.5% and 2% respectively was noted in the number and amount of TRCs sold (**Schedule 12**). Overall, the total amount of TRCs sold decreased by 16.5% (**Figure 24**).

The second situation applies to taxpayers who object to tax assessments and are required to purchase TRCs in respect of the tax in dispute. Such TRCs are used to settle any tax found payable upon the finalisation of the objection or appeal. Interest is only payable on the amount of the TRC, if any, subsequently required to be repaid to the taxpayer, and is computed at floating rates over the tenure of the TRC.

**Figure 24 Certificates sold**

